

SCE COMMENTS ON CLIMATE ACTION TEAM DRAFT REPORT TO THE GOVERNOR
AND LEGISLATURE¹
DECEMBER 13, 2005

Climate change is a serious global problem that needs to be addressed with comprehensive and cost-effective programs. The Climate Action Team Draft Report proposes sweeping programs to achieve the greenhouse gas reduction goals defined in the Governor's Executive Order. The Team appropriately recognizes there are many important questions that need to be answered before the state moves ahead in earnest with many of the programs outlined in the report.

The climate change problem will only be solved by dramatically reducing global carbon emissions over time. Dramatically reducing carbon emissions in California in the short term will not forestall the impact of climate change if developing countries like China and India do not take similar steps. As British Prime Minister Blair has said: "The blunt truth about climate change is that no country will want to sacrifice its economy in order to meet this challenge"². That is why developing cost effective technology and emphasizing efficient energy use to help reduce our carbon footprint is the most important thing California can do to lead to address the climate challenge.

Learning from and building on our successful energy efficiency programs is an important component of a sound global climate policy. As an innovator and leader in energy efficiency programs SCE helped its customers save the equivalent of over five million tons of CO₂ in 2004. We also recently joined the China/US Energy Efficiency Alliance in partnership with the Natural Resources Defense Council and other forward looking companies. The Alliance will make a real contribution to the efficient use of electricity in that rapidly growing country. We need to continue and expand our efforts at energy efficiency both because it is an important global climate protection measure that can be used around the world to great effect and because energy efficiency will save money wherever it is employed.

SCE supports and encourages the development of technology for renewables, energy efficiency and clean coal use that will allow California, the US and countries around the world to begin in earnest the transition to a lower carbon emitting society. We are proud to lead the nation in providing our customers with electricity from renewable sources of power, with more than 18% of the electricity we distribute coming from renewables. We are pleased to have contracted for 500 MW of solar thermal electricity with Stirling Power Incorporated that will commercialize the use of the innovative Stirling Dish technology to harness the power of the sun. We also provide substantial amounts of carbon free power to our customers from the San Onofre and the Palo Verde nuclear power plants. If we are serious about addressing climate change, nuclear power must be considered as a part of the solution. Yesterday, SCE announced that the first of two units of the Mountain View Power Project, a 1000 plus MW state of the art natural gas fired combined cycle power plant is ready for commercial operation. In the 1980's SCE was among the country's first utilities to help build and operate one of the country's first experimental

¹ Delivered by Michael M. Hertel, Director, Corporate Environmental Policy, at the Climate Action Team December 13 workshop Cal EPA, Sacramento

² Prime Minister Blair's speech November 6, 2005 to a London summit of energy and environment ministers as quoted by [The Climate Group.Org](http://TheClimateGroup.Org)

integrated gasified combined cycle plants to make clean gas from coal. The US is the Saudi Arabia of coal with the world's largest reserves. A quarter of the entire world's coal is located within the US. We need to find ways to use coal while substantially improving its carbon emission profile.

We believe the state can lead the country and the globe to a lower carbon footprint by developing transferable technology for clean energy and better energy efficiency. In an understandable effort to provide its citizens with the benefits of electricity most Americans take for granted, China is building new coal fired power plants at the rate of one per week. Helping to develop and transfer cost competitive technology that will allow countries like China to continue its development while protecting against harmful climate change is the key to addressing this very challenging environmental problem facing human society.

We will continue to work with state policymakers to find effective ways to address climate change while maintaining and enhancing the state's economic competitiveness. With respect to the Draft Report, we believe it would benefit from better leveraging California's leadership and experience with renewables and energy efficiency. In addition, rather than attempt to reduce California's already minimal reliance on coal fired electricity, the report should recognize that greater benefit will come to our nation's energy security and the global environment by investing in clean coal technology.³ Further, we are concerned that some of the recommendations appear to favor addressing expansion of the Renewable Portfolio Standard to 33% from 20% without a clear and defensible path to achieve the goal and without clear inclusion of all electricity providers in the state.⁴ The draft report also appears to endorse a power purchase policy that would restrict buying power from coal fired power plants with little consideration for the obvious problems created thereby.⁵ We detailed our concerns with this policy in comments at the last Climate Action Team workshop and in a letter from Pedro Pizarro of Edison to Chairman Desmond of the CEC dated October 6, 2005.

Regarding cap and trade, the Draft Report appropriately recognizes a number of critical weaknesses in a California only system. The Report, nevertheless, proceeds to treat a state based cap and trade system as viable, commenting that "...leakage may be partially mitigated through design of the program..."⁶ We disagree, and have filed comments previously with the Climate Action Team detailing our concerns. If the state implements a California based cap and trade system there will be an inevitable incentive to shift production, especially electricity production, to neighboring states frustrating the aim of reducing emissions. In addition, there are likely legal challenges associated with any system that restricts commerce in interstate electricity.

We commend the Report's consideration of the use of offsets in any future program aimed at mandatory GHG emissions reductions⁷. California has already done an excellent job in reducing its carbon footprint and significant additional reductions within the state will likely be more expensive than those found outside of the state. Since GHG reductions anywhere in the world

³ Draft Report, Investor Owned Utility Carbon Policy, page 61

⁴ Draft Report, Executive Summary, page vi

⁵ Draft Report, page 70

⁶ Draft Report, page 75

⁷ Draft Report, pages 95, 98

have same benefits as similar reductions in California, it makes sense for California entities to get the greatest reduction for the lowest price regardless of location or source. Offsets and a price cap safety valve are critical components of mandatory reduction programs to protect against a repeat of unforeseen circumstances such as those we experienced during the 2000-2001 electricity crisis. We stand ready to work with the CAT to develop a viable framework for the use of offsets.

We also commend the recognition that much work remains to be done to assess objectively the economic impact of the various GHG policy proposals⁸. We endorse the need to develop economic models that can objectively analyze the cost of alternate policy options and pledge our support for this important effort.

In analyzing the recommendations by the CAT, we believe California government leaders need to be certain that any additional cost imposed on the State's businesses and families by the Climate Action Team proposals:

- (1) Will result in significant mitigation of the global warming risks, especially through investments in clean technology and energy efficiency;
- (2) Will be fairly shared by all Californians;
- (3) Will not make the State less competitive in the US and global economies; and
- (4) Will not endanger reliability of the electricity system or increase our dependence on foreign or higher-priced energy sources.

We appreciate the Climate Action Team's effort to reach out to SCE and other responsible energy suppliers in the state to seek our comment. The State of California is well positioned to serve an important leadership role for the sharing of successful energy efficiency models and the development of new technologies to reduce the carbon footprint throughout the globe. We look forward to continuing to work with the Team, the California Public Utilities Commission, the California Energy Commission, other state agencies and the California Legislature to address this important issue. We look forward to helping find those policies that are most effective in addressing the climate change problem in the least cost fashion. Edison will maintain its tradition of honest, objective comment in the service of the state and its customers.

⁸ Draft Report, page 98